

REPORT OF
FINANCIAL EXAMINATION

Missouri Property and Casualty Insurance Guaranty Association

AS OF

December 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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November 12, 2004
Jefferson City, MO

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, MO 65101

Sir:

In accordance with your financial examination warrant, an examination has been made of the records, affairs and financial condition of

Missouri Property and Casualty Insurance Guaranty Association

also referred to as "MOPCIGA" or as the "Association." The location of the Association's administrative office is 994 Diamond Ridge, Suite 102, Jefferson City, MO 65109. The Association's telephone number is (573) 634-8455. This examination began on October 4, 2004 and concluded November 12, 2004.

SCOPE OF EXAMINATION

Period Covered

The last financial examination of the Association was performed as of December 31, 1999, by an examiner from the State of Missouri.

The current financial examination covers the period from January 1, 2000, through December 31, 2003, and was conducted by an examiner from the State of Missouri. This examination also included material transactions and/or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed. The Association is governed by Sections 375.771 to 375.779 RSMo (Missouri property and casualty insurance guaranty association act). The examination verified that the Association is complying with the provisions of these statutes.

The workpapers of the Company's independent auditor were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

Listed below are the comments and recommendations taken from the prior Examination Report as of December 31, 1999. The responses or actions taken by the Association are also described below.

Comment: Management

"It does not appear that the Board of Directors takes an active enough role in supervising the Association's over-all operations, management or record keeping procedures. This comment is fortified by the excessive number of recommendations noted below. It is recommended that the Board of Directors become more involved with the supervision of the Association's operations, management and record keeping procedures."

Association Response:

“While agreeing that there are certain operational issues that need to be evaluated and changed if necessary, it is the position of the Board of Directors that their involvement has been sufficient to fulfill their responsibilities as Directors.”

Current Findings:

During the period under examination, the Board met at least quarterly during the year. The Board appears to be adequately involved in the supervision of the Association’s operations.

Comment: Comments Prior Examination

“Section 375.776 RSMo (Board of directors, selection, terms) requires that the Association establish procedures whereby the selections for the board of directors will be submitted to the Director of the Missouri Department of Insurance (MDI). The Association could not provide documentation to support the statement that they regularly notify the Department of Insurance of board member selections. It is recommended that the Association submit such notification to the Missouri Department of Insurance on an annual basis and retain copies of this notification for general record keeping purposes.”

Association Response:

“On an annual basis the Association will submit notification to the Director of the Department of Insurance regarding nominations for the Board Directors. Notification will occur prior to the annual meeting of the association and a copy of the notification will be retained at the Association’s office.”

Current Findings:

During the period under examination, the Association notified the Director, MDI, of nominations to the Board annually.

Comment: Management

“It is recommended that the Association's Board of Directors meet at least once per quarter so that the Board of Directors may be more informed of the Association's operations. It is further recommended that if possible, at least one of these meetings be held at the Association's home office so that the Board of Directors may familiarize themselves with the Association's operations and record keeping procedures.”

Association Response:

“Prior to the receipt of this Recommendation the Board of Directors had already been scheduled to meet once each quarter during this year. Most meetings are scheduled to be held in one of the meeting rooms at Schneithorst's Restaurant in St. Louis. That location has been chosen because it is reasonably convenient for those who arrive by car as well as those who arrive by air carrier.”

Current Findings:

During the period under examination, the Board met at least quarterly during the year.

Comment: Management

“It is recommended that the Association comply with Section 375.776 RSMo in the future by notifying the Director when vacancies to the Board of Directors occur.”

Association Response:

“The Association will notify the Director when vacancies on the Board of Directors occur.”

Current Findings:

During the period under examination, the Association notified the Director of vacancies occurring on the Board of Directors.

Comment: Conflict of Interest

“It is recommended that the Association require all Directors, Officers and employees to sign conflict of interest disclosure statements on an annual basis. The Board's review of conflict of interest statements should be documented in the minutes.”

Association Response:

“The Board will make sure that all employees, officers and Directors sign conflict of interest disclosure statements. Those statements will be reviewed to make sure that no material conflicts are allowed.”

Current Findings:

The Board adopted a conflict-of-interest policy on September 20, 2000. Signed disclosure statements for the years 2001 through 2003 were reviewed. No material conflicts of interest were reported.

Comment: Corporate Records

“It is recommended that the Association's Secretary provide the Executive Director with a copy of all of the proceedings of the Board of Directors and any attachments within 30 days of each Board meeting.”

Association Response:

“The Executive Director attends each meeting of the Association’s Board of Directors. There appears to be no compelling need to have minutes prepared and provided to the Executive Director prior to 30 days before the next meeting.”

Current Findings:

The Executive Director attended every meeting of the Board during the period under examination. The meeting minutes appear to be available in a timely fashion.

Comment: Assessment Methodology

“It is recommended that the Association prepare summary reports regarding all documents reviewed by the Board to determine assessment amounts. These summaries and documentation of the Board's review of the reports should be included in the minutes for general record keeping purposes.”

Association Response:

“The general rule followed in preparing minutes of meetings is to ensure that all action items are included and documented. The Association suggests that documents reviewed need not be summarized in the minutes unless such a summary is reasonably necessary to explain an action taken by the Board during the meeting.”

Current Findings:

Although the Board does not prepare summary reports for inclusion in the minutes, the Board appears to keep copies of reviewed documents along with the minutes.

Comment: Assessment Methodology

“It is recommended that the Association implement an assessment methodology which allows for the allocation of aggregate assessments and expenses to individual insolvencies. The methodology must be installed in order to provide members with reasonable estimates of the ultimate net outstanding liability of individual insolvencies for each member's reporting purposes.”

Association Response:

“The Statement of Statutory Accounting Principles (“SAP”) Number 35 may require a modification in the methodology used to develop assessments of the Association’s member companies. The Association will make sure that its actions are in compliance with SAP Number 35.”

Current Findings:

The Association has implemented a methodology that addresses SSAP Number 35.

Comment: Investment of Assessment Collections

“It was noted that the fund balance of the General and Administrative Fund is approximately \$4,500,000 while annual operating expenses are approximately \$250,000. It is recommended that the Association's Board of Directors comply with the Plan of Operation by reviewing operating expenses along with necessary assessments or refunds on an annual basis. It is further recommended that the Board of Directors consider refunding a portion of the General and Administrative Fund balance to other funds. This refund would offset the amount necessary in future assessments.”

Association Response:

“The Association agrees to continue to review operating expenses along with necessary assessments or refunds on an annual basis. The Association will evaluate the feasibility of refunding a portion of the General and Administrative Fund balance to the other funds.”

Current Findings:

The Association has complied with this recommendation.

Comment: Annual Directors Meetings

“It is recommended that the Directors review each of the items prescribed by the Plan of Operation at each Annual Meeting and document their review in the minutes of such meetings.”

Association Response:

“Annual Meetings will include a review of each of the items prescribed in the Association’s Plan of Operation. That review will be noted in the minutes of the Annual Meeting.”

Current Findings:

For the period under examination, the Annual Meeting minutes noted the review of items prescribed by the Plan of Operations.

Comment: Summary of Insolvencies

“It is recommended that the Association comply with its Plan of Operation by maintaining a report of the history and cause of each insolvency processed by the Association. It is also recommended that the Association include a summary of the

insolvency history and cause report as a part of the annual report submitted to the Department of Insurance.”

Association Response:

“In the past the Association has received little if any information on the cause of each insolvency. To the extent such information is available, the Association will include it.”

Current Findings:

The Association includes a description of each insolvency in the annual report.

Comment: Non Pro-Rata Assessments

“It is recommended that the Association amend its Plan of Operation to coincide with Missouri statutes regarding the assessment of members for operating expenses.”

Association Response:

“The Plan of Operation has been amended to comply with this recommendation.”

Current Findings:

The current Plan of Operation appears to comply with Missouri statutes regarding the assessment of members for operating expenses.

Comment: Contracted Services

“It is recommended that the Association enter formal service agreements with any parties providing services on a contract basis. The agreements should document each party's duties and responsibilities along with the remuneration for services rendered. The terms of all service agreements should be reviewed annually by the Board of Directors.”

Association Response:

“The Board will secure formal service agreements with Messrs. Johnson and Remmers. Those agreements will document the duties and responsibilities of each of those gentlemen as well as the remuneration for the services that are provided. However, the Board does not believe that it is necessary that all service agreements should be reviewed annually by the members of the Board.”

Current Findings:

Currently, the Association does not have any parties providing services on a contract basis.

Comment: Draft Authorization Procedures

“It is recommended that the Board of Directors develop and approve written draft request / authorization procedures. It is further recommended that at least two signatures be required for drafts written for significant dollar amounts and all drafts issued to authorized signors.”

Association Response:

“The Association will prepare written procedures governing the issuance of drafts. As part of that process the Board will determine what situations will warrant the requirement of two signatures.”

Current Findings:

The Association no longer issues drafts. The Association is in the process of formalizing check issuance procedures. Two signatures are still not required for significant dollar amounts or checks issued to authorized signers. However, the Association appears to have adequate internal controls in place over check issuing.

Comment: Investments

“It is recommended that the Association develop an investment strategy to maximize investment income while ensuring sufficient cash flow liquidity. This strategy should be reviewed by the Board of Directors on a periodic basis.”

Association Response:

“The Board of Directors will ensure that a written investment policy is prepared and implemented.”

Current Findings:

The Board adopted an investment policy on November 6, 2000.

Comment: Investments Authorization

“It was noted through discussion with representatives at Bank of America that Mr. Ernie Johnson, CPA (the Association's outside accountant) is the bank's contact for authorized investment activity. The Association has not however, provided the bank with a corporate resolution designating persons authorized to purchase and sell investments. Mr. Johnson currently obtains verbal approval from the Executive Director before investment transactions are made. It is recommended that the Association regain control of investment transactions by notifying Bank of America that the Executive Director or an Officer of the Association are the only persons authorized to make investment transactions on behalf of the Association. If the board elects to allow Mr. Johnson to retain this authority, it is recommended that a procedure be installed whereby written approval is obtained from the Executive Director or an Association Officer before each purchase or sale of investments. Copies of the approval forms should be maintained by the Association for general record keeping purposes.”

Association Response:

“The Association will prepare a written procedure establishing the fact that the Executive Director must approve the transfer of funds before any such transfer may occur.”

Current Findings:

Only the Executive Director makes investment decisions for the Association with the approval of the Board of Directors.

Comment: Drafts Outstanding

“Section 375.775 RSMo (Association, powers and duties) requires the Board of Directors to submit to the Director of the Department of Insurance, a financial report for the preceding calendar year in a form approved by the Director. It is recommended that the Association recognize a liability for outstanding drafts in its Annual Report to the Department of Insurance or disclose the amount of outstanding drafts in the notes to financial statements.”

Association Response:

“The Association agrees to list the total of drafts outstanding in the notes to the financial statements.”

Current Findings:

The Association stopped issuing drafts in 2001.

Comment: Loss and Loss Adjustment Expense Reserves

“It is recommended that the Association either switch to a modified cash basis of accounting, which would incorporate estimated loss and loss adjustment expenses payable as liabilities or disclose this amount in the notes to financial statements. The

total amount of estimated loss and loss adjustment expenses payable at December 31, 1999, was approximately \$46,000,000. Of the total losses payable at December 31, 1999, approximately \$30,000,000 relates to claims from the late 1980's, which the Association expects to close without payment.”

Association Response:

“It is not clear that loss and loss adjustment expense estimates have been accurate to the extent that they should be disclosed as liabilities.”

Current Findings:

The annual reports for the years 2001 through 2003 include financial statements which report estimated losses and loss adjustment expenses.

Comment: Loss and Loss Adjustment Expense Reserves

“It is recommended that the Association evaluate outstanding claims with estimated losses of \$250,000 or above on at least a quarterly basis. It is further recommended that a summary of this evaluation be prepared describing the likelihood and amount of each claim liability. The summary should be presented to the Board of Directors for their review and use in determining assessment amounts.”

Association Response:

“On page 21 of the “Report of Financial Examination”, the Examiner indicates that future assessments must comply with Statement of Statutory Accounting Principle Number 35. To the extent required, the Association will ensure that its actions comply with Principle Number 35. By doing so the Association believes that this issue will be resolved.”

Current Findings:

The Association reviews losses as part of the review of financial activity which is performed quarterly.

Comment: Unclaimed Property

“It is recommended that the Association follow the provisions of the State of Missouri Uniform Disposition of Unclaimed Property Act (Sections 447.500-595 RSMo) as they have previously agreed to do. The Association currently holds \$65,386 in drafts over seven years outstanding. It is the Association's contention that drafts are offers of settlement that have not been accepted by the claimant, and are therefore not abandoned property. Many of the drafts included in the balance stated above are general expenses payable to service vendors and are obviously not "offers of settlement," but rather abandoned property. It is recommended that the Association review all uncleared drafts over seven years outstanding and properly remit all abandoned property to the Office of the Missouri State Treasurer.”

Association Response:

“The Association will make sure that all uncleared drafts over seven years outstanding are evaluated so that any such drafts which qualify as abandoned property are remitted to the Office of the Missouri State Treasurer.”

Current Findings:

The Association appears to be in compliance with the Unclaimed Property Act.

Comment: Restricted Premium

“It is recommended that the Association remit the net balance of \$1,725,124 to the Director of Revenue upon the final closing of the Iowa National Mutual Insurance

Company insolvency. This balance should be reported as a liability until the funds are turned over to the State of Missouri.”

Association Response:

“When the Association is notified that the Iowa National Mutual Insurance Company insolvency has been closed and the liquidator has made no claim for any portion of the \$1,725,124, that amount will be transferred to the Missouri Director of Revenue. Until that occurs, the Association believes it is proper to report that amount as a liability.”

Current Findings:

As of December 31, 2003, the Iowa National Mutual Insurance Company insolvency remained open. The Association remitted the above amount to the Director of Revenue in 2004.

Comment: Missouri Department of Insurance Medical Malpractice Report

“It is recommended that the Association comply with the request of the Missouri Department of Insurance by supplying the Statistics Section with quarterly reports of the requested medical malpractice claims information. It appears that any confidentiality concerns of the Association could be easily resolved through variations of the report format.”

Association Response:

“A Statistical Analyst advised the Association that Missouri requires all companies that write medical malpractice insurance report their open and closed claims per Section 385.105. Accompanying the letter was a detailed form for reporting. Section 385.105 pertains to insurers providing medical malpractice insurance. The Appellate

Courts of Missouri have held that the Association is not an insurer nor is it engaged in the business of insurance.

Even though Section 385.105 was amended in 1989 by House Bill number 445 by broadening the definition of insurer, it still is not broad enough to cover the Association.

Further, to report as required by the Missouri Statutes pertaining to medical malpractice insurance would place the Association in violation of the "Health Care Quality Improvement Act of 1986". See Section 401, Title 42, United States Code. Federal law supersedes state law when it pertains to the same subject as the state law.

Under the provisions of the Health Care Quality Improvement Act of 1986 the Association reports any medical malpractice claims in detail to the National Practitioner Data Bank. The Federal law also provides that if the Association reported the same information in the same detail to the Missouri Department of Insurance it would be subject to a fine of \$10,000.00 for each report.

If the Research Analyst is interested in annual totals of medical malpractice indemnity payments and ALAE on an annual basis, this is available from the annual financial reports of the Association, which are currently on file in the Missouri Department of Insurance. The Research Analyst has been advised of these facts."

Current Findings:

The Missouri Department of Insurance Statistics Section is receiving the data they require from the Association.

HISTORY

General

The Missouri Property and Casualty Insurance Guaranty Association, a tax-exempt, non-profit unincorporated legal entity organized under Internal Revenue Code Section 115, was established on September 28, 1971, under the provisions of Sections 375.771 to 375.779 RSMo. Per Section 375.775 RSMo, (Association, powers and duties), the purpose of the Association is to protect policyholders against failure in the performance of contractual obligations under property and casualty insurance policies because of impairment or insolvency of the insurer issuing such policies. Further, the Association has a responsibility to assist the Director of the Department of Insurance in the payment of claims for insolvent insurance companies. The Association is authorized to assess its members in order to fulfill its obligations.

Membership

As of December 31, 2003, there were 854 companies licensed to sell property and casualty coverage in Missouri. According to Section 375.772 RSMo, (Association, created-definitions), all insurers with authority to transact property or casualty insurance in Missouri are members of the Association and must remain members of the Association as a condition of their authority to transact insurance in Missouri. Section 375.773 RSMo, (Accounts, types of insurance-applicability of law) exempts the following types of direct insurance from the provisions of Sections 375.771 to 375.780 RSMo: life, accident and sickness, title, surety, disability, credit, mortgage guaranty, ocean marine and assessment insurance written under the provisions of Chapter 383 RSMo.

Management

Section 375.776 RSMo (Board of directors, selection, terms-powers and duties) requires a Board of Directors consisting of seven member insurers, not less than four of which are Missouri-domiciled insurers. Terms of office are determined by the Association's Plan of Operation, which stipulates staggered terms of three years. At year-end 2003, the Board of Directors consisted of the following members:

<u>Member Insurer</u>	<u>Term Ends</u>	<u>Representative</u>
American Family Insurance Company Jefferson City, MO	2004	David A. Monaghan
Automobile Club Inter-Insurance Exchange St. Louis, MO	2005	William A. Erdman
Cornerstone National Insurance Company Columbia, MO	2005	D. Scott Forrest
Farm Bureau Town and Country Insurance Company Jefferson City, MO	2004	Michael P. Voiles
Liberty Mutual Insurance Company Schaumburg, IL	2004	Charles H. Burhan
Shelter Mutual Insurance Company Columbia, MO	2006	Joe L. Moseley
State Farm Mutual Automobile Insurance Company Bloomington, IL	2006	Debra G. Wozniak

The officers elected and serving at December 31, 2003 were:

<u>Name</u>	<u>Office</u>
William A. Erdman	Chairman
David A. Monaghan	Treasurer

The officers of the Association comprise the Executive Committee. The Board delegates the operation of the Association to an Executive Director. In April 2001, the Board approved a joint administration agreement with the Missouri Life and Health Guaranty Association. At that time Charles Renn became the Executive Director for both entities.

Conflict of Interest

Directors, officers and key employees of the Association execute conflict-of-interest statements annually. A review of the statements for the period under examination indicated that there were no material conflicts-of-interest disclosed.

Corporate Records

In compliance with Section 375.776 RSMo (Board of directors, selection, terms) the Association adopted a Plan of Operation on September 28, 1971. The Director of Insurance approved the Plan on February 2, 1972. The Association amended the Plan of Operations in 1996 to incorporate sections of the National Association of Insurance Commissioners (NAIC) Post-Assessment Property and Liability Insurance Guaranty Association Model Plan of Operation. The Board of Directors approved the amended Plan on August 13, 1996. On September 30, 2003, the Association adopted a Plan of Operation, which amended the prior Plan by removing language allowing non-pro-rata assessments for operating expenses. Section 375.775 RSMo (Settlement of claims; powers of association) requires pro-rata assessments.

The minutes of the meetings of the Board of Directors were reviewed for the period under examination. The minutes appear to properly support the corporate transactions and events for the period under examination. The Board reviewed and approved the December 31, 1999 Report of Financial Examination on June 14, 2000.

Surplus Debentures

The Association does not have any surplus debentures issued or outstanding.

Letter of Credit

The Association maintains a \$15,000,000 unsecured revolving line-of-credit with Central Bank of Jefferson City. Interest accrues at a rate of .05 percent over prime. The line-of-credit was opened April 5, 2002 and was renewed April 5, 2003 and again on April 5, 2004. There were no borrowings under this agreement during 2002 and 2003.

AFFILIATED COMPANIES

Holding Company

The Association is not a member of a holding company system nor does it have any subsidiaries or affiliates.

INSOLVENCIES

The Plan of Operation requires that the annual report contain a review of the activities of the Association during the preceding year. The Association lists open insolvencies in the annual report to fulfill that requirement. Open insolvencies by domicile state and year of insolvency at December 31, 2003 were as follows:

<u>Company</u>	<u>Domicile</u>	<u>Year</u>
Kenilworth Ins.	IL	1981
Northwest Ins.	OR	1982

Aspen Indemnity	CO	1984
Proprietors Insurance, Inc.	OH	1984
Commercial Standard Ins.	TX	1985
Early American Ins.	AL	1985
Glacier General Ins.	MT	1985
Ideal Mutual Ins.	NY	1985
Iowa National Ins.	IA	1985
S&H Ins.	CA	1985
Transit Casualty Ins.	MO	1985
Union Indemnity Ins.	NY	1985
American Druggist Ins.	OH	1986
American Fidelity Ins.	NY	1986
Carriers Ins.	IA	1986
Midland Ins.	NY	1986
Enterprise Ins.	CA	1987
Holland-American Ins.	MO	1987
Integrity Ins.	NJ	1987
Mission Ins.	CA	1987
Great Global Assurance	AZ	1988
American Mutual Ins of Boston	MA	1989
American Mutual Liability Ins.	MA	1989
Great Atlantic Ins.	DE	1989

Pacific Marine Ins.	WA	1989
Paxton National Ins.	PA	1989
United Fire Ins.	NY	1989
Intercontinental Ins.	IL	1990
Ohio General Ins.	OH	1990
American Universal Ins.	RI	1991
Edison Ins.	IL	1991
Rockwood Ins	PA	1991
Western Employers Ins.	CA	1991
Comco Ins.	TX	1992
First Southern Ins.	FL	1992
Great Plains Ins.	NE	1992
West General Ins.	KS	1992
Bel-Aire Ins.	MO	1993
State Security Ins.	IL	1993
Employers Casualty Ins.	TX	1994
Employers National Ins.	DE	1994
Premier Alliance Ins.	CA	1994
Professional Medical Ins.	MO	1994
United Community Ins.	NY	1995
Coronet Ins.	IL	1996
Lutheran Benevolent Ins. Exchange	MO	1996

United Southern Assurance	FL	1996
American Eagle Ins.	TX	1997
Insurance Corporation of America	TX	1997
PIE Mutual Ins.	OH	1998
California Compensation Ins.	CA	2000
Commercial Compensation Casualty	CA	2000
Hamilton Ins.	PA	2000
HIH America Compensation & Liability	CA	2000
LMI	OH	2000
Acceleration National Ins.	OH	2001
Credit General Ins.	OH	2001
International Indemnity Co	GA	2001
Reliance Ins.	PA	2001
Sable Ins.	CA	2001
PHICO Ins.	PA	2002
Fremont Ins.	CA	2003
Home Ins.	NH	2003
Legion Is.	PA	2003
Millers Ins.	TX	2003
Reciprocal of America	VA	2003
Villanova Ins.	PA	2003

INSOLVENCY ASSESSMENTS

Assessments are levied at the discretion of the Board whenever funds are needed to pay claims and expenses. Assessments are limited to 1% of the net direct written premium of the member insurer. Per Section 375.775 RSMo, assessments of member insurers are based on the insurer's proportion of net direct written premium for the prior three years for all Missouri-domiciled insurers.

Assessments require the approval of a majority of the Board of Directors. A review of the Board meeting minutes for the period under examination indicated that all assessments were properly authorized.

Following is a summary of assessments levied during the examination period:

<u>Year Ending</u>	<u>Automobile</u>	<u>Workers' Comp</u>	<u>All Others</u>	<u>Total</u>
12/31/2000	\$ -	\$ 5,543,406	\$ 9,818,170	\$ 15,361,576
12/31/2001	15,994,691	6,072,215	20,547,077	42,613,983
12/31/2002	-	6,846,871	-	6,846,871
12/31/2003	-	8,076,530	-	8,076,530
Total	<u>\$ 15,994,691</u>	<u>\$ 26,539,022</u>	<u>\$ 30,365,247</u>	<u>\$ 72,898,960</u>

FIDELITY BOND & OTHER INSURANCE

Missouri Property and Casualty Insurance Guaranty Association is a named insured on a business policy providing coverage against losses due to dishonest or fraudulent employee acts with a limit of liability of \$50,000. The Company is also protected against loss from various hazards and perils by additional coverages, some of which are described below:

Building Personal Property

Tenant Legal Liability

Umbrella Liability

Business Auto Liability

Fire Damage

Medical Expense Liability

General Liability

Employer's Liability

Products Liability

Workers' Compensation

EMPLOYEE BENEFITS

The Association has a staff of five full-time employees. The Association provides employees with a benefit package including paid vacation, paid sick leave, paid holidays, health and dental insurance, life insurance and long-term disability insurance.

The Association sponsors a defined contribution simplified employee pension plan covering full-time employees with at least one year of service. The Board of Directors contributes to the plan on a discretionary basis. For each year under examination, the Association contributed 8% of an employee's gross salary to the retirement plan. The Association does not maintain any other post-employment or post-retirement benefit plans.

ACCOUNTS AND RECORDS

The Association prepares its financial statements on a modified cash basis. Trial balances for the period under examination were traced to the annual statement without material exception.

The Association is audited annually by an independent accounting firm. The Association's auditor for the years ended December 31, 2002 and 2003 was Williams Keepers, LLC, CPA. CPA workpapers for the most recent audit were reviewed and used in the examination process as deemed appropriate.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual Annual Statement item.

ASSETS

Cash and cash equivalents	\$ 3,886,187
Accounts receivable	285,220
Short-term investments	73,131,919
Unbilled assessments	83,306,455
Long-term investments	3,225,000
Capital assets	<u>10,331</u>
 Total Assets	 <u>\$ 163,845,111</u>

LIABILITIES AND FUND BALANCE

Due to MOLHIGA	\$ 25,027
Due GAB	1,094,002
Payable to Director of Revenue	1,725,124
Large deductible reimbursement	3,132
CB payable: line of credit	1
Funds held for others	1,213
Estimated claims payable (LAE)	19,023,136
Estimated claims payable (Loss/Auto)	12,688,977
Estimated claims payable (Loss/WC)	63,696,772
Estimated claims payable (Loss/Other)	<u>40,127,824</u>
 Total Liabilities	 \$ 138,385,208
 Fund balance	 \$ 25,459,903
 Total Liabilities and Fund Balance	 <u>\$ 163,845,111</u>

SUMMARY OF OPERATIONS

REVENUES

Assessment income	\$ 7,972,745
Change in unbilled assessments	7,302,181
Liquidation distributions	16,268,578
Subrogation	191,690
Interest income	<u>1,420,441</u>
 Total Revenues	 <u>\$ 33,155,635</u>

EXPENSES

Policyholder benefit claims	\$ 15,157,296
Loss adjustment expenses	5,488,301
Unearned premium claims	654,024
Change in estimated claims	17,939,651
TPA expense	724,470
General & administrative expenses	<u>479,516</u>
 Total Expenses	 <u>\$ 40,443,258</u>
 Net Income	 <u>\$ (7,287,624)</u>

CHANGE IN FUND BALANCE

Fund balance, prior year	\$ 32,747,526
Net Income/(Loss)	<u>(7,287,624)</u>
Fund balance, current year	<u>\$ 25,459,903</u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by Missouri Property and Casualty Insurance Guaranty Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

[illegible]

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Association, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiner finds reasonably warranted from the facts.


Thomas J. Cunningham, CFE, CPA
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of December 2004.

My commission expires:

Oct. 7, 2005
RAYNA S. RICE
Notary Public - State of Missouri
County of Cole
My Commission Expires Oct. 7, 2005

Rayna S. Rice
Notary Public
SUPERVISION

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The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley
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CFE, FLMI, CIE, AIAF, ARe
Audit Manager - St. Louis
Missouri Department of Insurance